

**SPARTA AREA SCHOOLS**  
**Kent County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2005

**SPARTA AREA SCHOOLS**  
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For the year ended June 30, 2005

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## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  
CPAs AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

August 25, 2005

The Board of Education  
Sparta Area Schools

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Sparta Area Schools (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of Sparta Area Schools as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005 on our consideration of Sparta Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Sparta Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Alden, Nichols & Carter, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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As management of the Sparta Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

**District-wide Statements**

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.



**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**Condensed District-Wide Financial Information**

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current assets	\$ 39,854,744	\$ 7,073,490
Net capital assets	<u>11,628,753</u>	<u>9,671,474</u>
<b>Total Assets</b>	<u><b>51,483,497</b></u>	<u><b>16,744,964</b></u>
<b>Liabilities</b>		
Current liabilities	3,770,895	4,779,430
Long-term liabilities	<u>38,829,073</u>	<u>5,395,764</u>
<b>Total Liabilities</b>	<u><b>42,599,968</b></u>	<u><b>10,175,194</b></u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	6,518,871	3,030,029
Restricted	144,997	569,139
Unrestricted	<u>2,219,661</u>	<u>2,161,460</u>
<b>Total Net Assets</b>	<u><b>\$ 8,883,529</b></u>	<u><b>\$ 6,569,770</b></u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

The Statement of Activities presents changes in net assets from operating results:

	<b>2005</b>	<b>2004</b>
<b>Program Revenues</b>		
Charges for services	\$ 835,397	\$ 767,549
Operating grants	4,222,204	3,464,706
<b>General Revenues</b>		
Property taxes	4,498,411	3,320,131
State school aid, unrestricted	17,632,957	17,846,602
Other	1,993,716	279,373
<b>Total Revenues</b>	<b>29,182,685</b>	<b>25,678,361</b>
<b>Expenses</b>		
Instruction	15,420,952	14,886,968
Supporting services	7,814,362	7,249,637
Community services	183,086	206,664
Food service	770,411	749,888
Athletics	560,492	573,812
Other	74,294	61,833
Interest on long-term debt	1,674,741	196,779
Depreciation – unallocated	370,587	351,532
<b>Total Expenses</b>	<b>26,868,926</b>	<b>24,277,113</b>
Increase in net assets	2,313,759	1,401,248
<b>Net Assets - Beginning of Year</b>	<b>6,569,770</b>	<b>5,168,522</b>
<b>Net Assets - End of Year</b>	<b>\$ 8,883,529</b>	<b>\$ 6,569,770</b>

**Financial Analysis of the District as a Whole**

The District's financial position is the product of many factors.

The District's total revenues increased by 13.6 percent, to \$29.18 million, due to increases in debt service property tax levies, Intermediate School district special education tax levies, State aid categorical revenue and a donation of property to the District. Property taxes and unrestricted state aid accounted for most of the District's revenues, contributing about 76 percent of every dollar raised. Another 14 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings, donations and miscellaneous sources.

The total cost of all programs and services increased 10.67 percent to \$26.87 million, due to increased instruction and supporting services costs and additional interest on long-term debt. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (64 percent). The District's administrative and business activities accounted for 8 percent of total costs. Operation and maintenance expenses accounted for 7 percent of the total costs. It should be noted that the District absorbed considerable cost

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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increases during the 2005 fiscal year in the areas of health insurance premiums, utilities, other District insurance and compensation for employees. However, the District also made staffing reductions at the end of the 2004 fiscal year. The net result was a slight increase in total General Fund expenditures for the 2005 fiscal year.

Total revenues surpassed expenses, increasing net assets by \$2,313,759 over last year, due to increased categorical state aid reimbursements for special education and a donation of property to the District for the new high school site.

The District has been able to continue to balance the General Fund budget through a series of reductions and cost savings measures that include:

- Reductions in instructional staff through attrition.
- Reductions in support personnel in a variety of areas throughout the District.
- Reductions in administrative personnel in the District.
- The current trend to reduce costs will continue. At the present time the District is working with other area districts to create collaborative arrangements whereby districts can become more efficient in a number of areas to include student transportation, purchasing, the use of personnel, delivery of instruction, the use of technology, etc.

**Fund Financial Statements**

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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**Financial Analysis of the District's Funds**

The District uses funds to record and analyze financial information. Sparta Area School's funds are described as follows:

**Major Funds**

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$23,748,684, total other financing sources of \$30,000, total expenditures of \$23,301,818, and total other financing uses of \$435,674. It ended the fiscal year with a fund balance of \$2,758,117, up from \$2,716,925 as of June 30, 2004. The increase in fund balance of \$41,192 can be related to a number of factors which include:

- Conservative spending for supplies and in the use of substitute teachers in the instruction basic program areas of the budget.
- Reductions during the year in the area of special education which reduced our expenditures in the added needs portion of the budget.
- Delaying expenditures in the operation and maintenance and transportation portions of the budget.
- Conservative spending practices in all other areas of the budget.

2004 Construction Fund

The District issued \$34,410,000 in capital improvement bonds in 2004 to finance the construction of a new high school, which is accounted for in the 2004 Construction Fund. Current year investment earnings totaled \$486,285, donations to the project were \$1,335,000 and the District received \$769,711 in bond premium on the issue. Initial architect fees, land costs and bond issue costs totaled \$2,830,297, leaving a remaining fund balance at June 30, 2005 of \$34,170,699 with which to complete the projects over subsequent fiscal years.

**Nonmajor Funds**

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues and other financing sources were \$1,316,312, with total expenditures and other financing uses of \$1,324,321. The ending fund balance was \$142,566, all of which is attributable to the Food Service Fund.

Debt Service Funds

The District operates five Debt Service Funds. Total revenues and other financing sources were \$2,705,123 and total expenditures and other financing uses were \$2,554,107. The ending fund balances in the Debt Service Funds totaled \$244,864.

Capital Projects Fund

There is one nonmajor Capital Projects Fund, the Building and Site Sinking Fund, incorporated into the financial statements of the District. Total revenues were \$328,467. Total expenditures were \$58,077 and other financing uses (transfers for debt service payments) totaled \$265,978. The ending fund balance was \$195,505.

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund is being held for the benefit of the District's students. Balances on hand at June 30, 2005 totaled \$407,044.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget four times. These budget amendments fall into the following categories:

- Changes made in October to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes made in January to account for additional revenue from the ISD for special education transportation.
- Changes made in April to account for additional revenue and expenditure decreases.
- Final changes made in June for increases in appropriations to prevent budget overruns.
- Although the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$244,656, the actual results for the year show a \$41,192 surplus.
- Actual revenues were \$10,502 lower than budgeted, due largely to interdistrict sources that were over estimated in the budget.
- Actual expenditures were \$308,811 below budget, due primarily to various reductions made during the year, the delaying of expenditures to future years, and conservative spending practices throughout the District.

**Capital Asset and Debt Administration**

Capital Assets

By the end of 2005, the District had invested \$21.41 million a broad range of capital assets, including land and land improvements, school buildings, athletic facilities, computer equipment, school buses, and administrative offices. This amount represents an increase of \$2,561,019 from June 30, 2004, due mainly to the donation of land for the new high school site and construction in progress on the high school project. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of District assets at June 30, 2005 are as follows:

Land	\$ 2,002,460
Construction in progress	1,126,651
Land improvements	507,285
Buildings and additions	7,314,383
Furniture and equipment	199,625
Vehicles	478,349
	<hr/>
<b>Total Capital Assets</b>	<b>\$ 11,628,753</b>

**SPARTA AREA SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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Long-Term Debt

At year end, the District had \$39.9 million in general obligation bonds and other long-term debt outstanding – an increase of \$33.2 million from last year, due mainly to the sale of the new high school bonds.

- The District continued to pay down its debt, retiring \$1.37 million of outstanding bonds.

The District's other obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in Note G to the Notes to Basic Financial Statements.

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District effectively negotiated a three year contract with our teacher (SEA) union and support employee (SESPA) union at the end of the 2004 fiscal year, with a salary opener for the 2006-07 school year. During this contract we were able to increase salaries at very modest levels. We were also able to change health insurance plans which did reduce our overall health insurance costs. We hope to successfully negotiate salaries with our teachers and support groups for next year.
- The District has experienced large increases in health insurance premium costs over the past three years. These increases have averaged in excess of 17%, amounting to annual increases in health insurance costs of over \$400,000. The District must continue to work with all of our employee groups in an attempt to find viable solutions as related to health insurance. The District cannot continue to support the types of increases in health insurance premiums that have now occurred over the past several years.
- Another area of substantial concern is the retirement rate school districts must pay on employee salaries. Over the past several years schools have experienced substantial increases in this area. We must continue to work with our State Legislature to get some reform in the Michigan school Employee Retirement System.
- Enrollment continues to be of some concern to the District. Recently we have seen some decline on an annual basis. Much of the decline can be attributed to a decline in our fall migrant student population.
- The current state of the Michigan economy has created a financial hardship on most schools in the State. School districts will receive a modest increase in State aid during the 2005-06 school year of \$175 per student. However, over the past three years we have experienced no increases and for two of those years we experienced reductions from the State. Unless this trend quickly changes, our financial position will worsen, causing additional budget reductions, which will impact the programs and services we provide for our students.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's Office, Sparta Area Schools, 465 S. Union St., Sparta, Michigan 49345.

## **BASIC FINANCIAL STATEMENTS**

**SPARTA AREA SCHOOLS**  
**Statement of Net Assets**  
**June 30, 2005**

	<u>Governmental Activities</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents (Note B)	\$ 2,000,310
Investments (Note B)	33,421,183
Taxes receivable (Note C)	65,194
Accounts receivable	3,031
Accrued interest receivable	324,343
Due from other governmental units (Note C)	3,779,497
Inventory (Note A)	13,853
Prepaid expenses	247,333
<b>Total Current Assets</b>	<u>39,854,744</u>
<b>Noncurrent Assets</b>	
Capital assets (Note E)	21,409,266
Less accumulated depreciation	<u>(9,780,513)</u>
<b>Total Noncurrent Assets</b>	<u>11,628,753</u>
<b>Total Assets</b>	<u>51,483,497</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	274,180
Due to other governmental units	438,317
Accrued interest payable	295,372
Salaries payable	1,187,315
Deferred revenue	130,654
Current portion of long term obligations	1,445,057
<b>Total Current Liabilities</b>	<u>3,770,895</u>
<b>Noncurrent Liabilities (Notes A, G)</b>	
General obligation bonds payable	37,460,000
Durant non-plaintiff bonds payable	464,246
Early retirement incentive	368,096
Accumulated sick leave	126,120
Unamortized bond premium	410,611
<b>Total Noncurrent Liabilities</b>	<u>38,829,073</u>
<b>Total Liabilities</b>	<u>42,599,968</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	6,518,871
Restricted for:	
Debt service	(50,508)
Capital projects	195,505
Unrestricted	2,219,661
<b>Total Net Assets</b>	<u><u>\$ 8,883,529</u></u>

See accompanying notes to basic financial statements.



**SPARTA AREA SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 15,420,952	\$ 35,969	\$ 3,548,686	\$(11,836,297)
Supporting services	7,814,362	29,836	320,678	(7,463,848)
Community services	183,086	231,702	-	48,616
Food service	770,411	429,648	352,840	12,077
Athletics	560,492	108,242	-	(452,250)
Other	74,294	-	-	(74,294)
Interest expense	1,674,741	-	-	(1,674,741)
Depreciation - unallocated	370,587	-	-	(370,587)
<b>Total Governmental Activities</b>	<b>\$ 26,868,926</b>	<b>\$ 835,397</b>	<b>\$ 4,222,204</b>	<b>(21,811,325)</b>
<b>General Revenues</b>				
Taxes:				
Property taxes, levied for general operations				1,769,567
Property taxes, levied for debt service				2,406,858
Property taxes, levied for capital improvements				321,986
State school aid, unrestricted				17,632,957
Interest and investment earnings				553,974
Other				1,439,742
<b>Total General Revenues</b>				<b>24,125,084</b>
<b>Change in Net Assets</b>				<b>2,313,759</b>
<b>Net Assets - Beginning of Year</b>				<b>6,569,770</b>
<b>Net Assets - End of Year</b>				<b>\$ 8,883,529</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2005**

	General	2004 Construction	Nonmajor	Total
<b>Assets</b>				
Cash equivalents (Note B)	\$ 1,004,032	\$ 425,936	\$ 570,342	\$ 2,000,310
Investments (Note B)	763	33,420,420	-	33,421,183
Taxes receivable (Note C)	52,450	-	12,744	65,194
Accounts receivable	1,975	-	1,056	3,031
Accrued interest receivable	-	324,343	-	324,343
Due from other governmental units (Note C)	3,774,697	-	4,800	3,779,497
Inventory (Note A)	2,408	-	11,445	13,853
<b>Total Assets</b>	<b>\$ 4,836,325</b>	<b>\$34,170,699</b>	<b>\$ 600,387</b>	<b>\$39,607,411</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 273,836	\$ -	\$ 344	\$ 274,180
Due to other governmental units	438,317	-	-	438,317
Salaries payable	1,187,315	-	-	1,187,315
Deferred revenue	178,740	-	17,108	195,848
<b>Total Liabilities</b>	<b>2,078,208</b>	<b>-</b>	<b>17,452</b>	<b>2,095,660</b>
<b>Fund Balances</b>				
Reserved for:				
Debt service	-	-	244,864	244,864
Capital outlay	-	34,170,699	195,505	34,366,204
Unreserved:				
Undesignated, reported in:				
General fund	2,758,117	-	-	2,758,117
Special revenue funds	-	-	142,566	142,566
<b>Total Fund Balances</b>	<b>2,758,117</b>	<b>34,170,699</b>	<b>582,935</b>	<b>37,511,751</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,836,325</b>	<b>\$34,170,699</b>	<b>\$ 600,387</b>	<b>\$39,607,411</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Assets of Governmental Activities**  
**June 30, 2005**

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<b>Total governmental fund balances</b>			<b>\$ 37,511,751</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$21,409,266 and accumulated depreciation is \$9,780,513.			
			11,628,753
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.			
			(163,278)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds		\$(38,615,000)	
Durant non-plaintiff bonds		(502,303)	
Early retirement incentive		(607,096)	
Accumulated sick leave		(139,120)	
			(39,863,519)
Accrued interest is not included as a liability in governmental funds.			
			(295,372)
Deferred revenue recognized as revenue in the full accrual statements:			
Property taxes			65,194
<b>Total net assets - governmental activities</b>			<b>\$ 8,883,529</b>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2005**

	General	2004 Construction	Nonmajor	Total
<b>Revenues</b>				
Local sources	\$ 2,246,363	\$ 1,821,285	\$ 3,283,103	\$ 7,350,751
State sources	18,522,334	-	46,778	18,569,112
Federal sources	1,168,210	-	306,062	1,474,272
Interdistrict sources	1,811,777	-	-	1,811,777
<b>Total Revenues</b>	<u>23,748,684</u>	<u>1,821,285</u>	<u>3,635,943</u>	<u>29,205,912</u>
<b>Expenditures</b>				
Current:				
Instruction	14,952,537	-	-	14,952,537
Supporting services	6,759,024	-	-	6,759,024
Community services	183,086	-	-	183,086
Food service	-	-	762,866	762,866
Athletics	-	-	531,455	531,455
Capital outlay	-	2,830,297	58,077	2,888,374
Debt service:				
Principal repayment	-	-	1,125,000	1,125,000
Interest and fiscal charges	-	-	1,404,339	1,404,339
Interdistrict	1,407,171	-	-	1,407,171
<b>Total Expenditures</b>	<u>23,301,818</u>	<u>2,830,297</u>	<u>3,881,737</u>	<u>30,013,852</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>446,866</u>	<u>(1,009,012)</u>	<u>(245,794)</u>	<u>(807,940)</u>
<b>Other Financing Sources (Uses)</b>				
Bonds issued	-	34,410,000	-	34,410,000
Bond premium	-	769,711	-	769,711
Transfers in	30,000	-	713,959	743,959
Transfers out	(423,213)	-	(320,746)	(743,959)
Other transactions	(12,461)	-	-	(12,461)
<b>Total Other Financing Sources (Uses)</b>	<u>(405,674)</u>	<u>35,179,711</u>	<u>393,213</u>	<u>35,167,250</u>
<b>Net Change in Fund Balances</b>	41,192	34,170,699	147,419	34,359,310
<b>Fund Balances, Beginning of Year</b>	<u>2,716,925</u>	<u>-</u>	<u>435,516</u>	<u>3,152,441</u>
<b>Fund Balances, End of Year</b>	<u>\$ 2,758,117</u>	<u>\$34,170,699</u>	<u>\$ 582,935</u>	<u>\$37,511,751</u>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2005**

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**Net change in fund balances - total governmental funds** \$ 34,359,310

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlays	\$ 2,561,019	
Depreciation expense	<u>(603,740)</u>	1,957,279

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (23,227)

Net bond refunding costs are amortized over the life of the new bond issue on the Statement of Activities. (472,445)

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets. (34,410,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of bonds 1,125,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid. (270,402)

In the Statement of Net Assets, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$248,779) exceeded the amounts earned (\$200,534). 48,245

**Total changes in net assets - governmental activities** \$ 2,313,759

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2005**

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 2,233,936	\$ 2,242,724	\$ 2,246,363	\$ 3,639
State sources	18,574,130	18,518,030	18,522,334	4,304
Federal sources	1,162,342	1,167,989	1,168,210	221
Interdistrict sources	1,485,798	1,830,443	1,811,777	(18,666)
<b>Total Revenues</b>	<u>23,456,206</u>	<u>23,759,186</u>	<u>23,748,684</u>	<u>(10,502)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	11,158,037	11,417,595	11,317,518	100,077
Added needs	3,486,245	3,357,767	3,341,209	16,558
Adult education services	335,263	310,211	293,810	16,401
Supporting services:				
Pupil services	1,617,861	720,330	697,119	23,211
Instructional staff services	728,614	675,425	644,275	31,150
General administrative services	393,805	657,001	638,495	18,506
School administrative services	1,426,784	1,449,943	1,450,253	(310)
Business services	295,472	268,557	264,048	4,509
Operation and maintenance services	1,841,088	1,830,138	1,786,469	43,669
Pupil transportation services	1,176,217	1,110,936	1,103,480	7,456
Central services	318,322	176,882	174,885	1,997
Community services	231,436	201,182	183,086	18,096
Interdistrict	496,000	1,434,662	1,407,171	27,491
<b>Total Expenditures</b>	<u>23,505,144</u>	<u>23,610,629</u>	<u>23,301,818</u>	<u>308,811</u>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<u>(48,938)</u>	<u>148,557</u>	<u>446,866</u>	<u>298,309</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	30,000	30,000	30,000	-
Transfers out	(202,000)	(423,213)	(423,213)	-
Other transactions	-	-	(12,461)	(12,461)
<b>Total Other Financing Sources (Uses)</b>	<u>(172,000)</u>	<u>(393,213)</u>	<u>(405,674)</u>	<u>(12,461)</u>
<b>Net Change in Fund Balances</b>	<u>(220,938)</u>	<u>(244,656)</u>	<u>41,192</u>	<u>285,848</u>
<b>Fund Balances, July 1</b>	<u>2,716,925</u>	<u>2,716,925</u>	<u>2,716,925</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 2,495,987</u></u>	<u><u>\$ 2,472,269</u></u>	<u><u>\$ 2,758,117</u></u>	<u><u>\$ 285,848</u></u>

See accompanying notes to basic financial statements.

**SPARTA AREA SCHOOLS**  
**Fiduciary Fund**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2005**

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**Assets**

Cash equivalents (Note B)	<u>\$ 407,044</u>
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**Liabilities**

Due to student groups	<u>\$ 407,044</u>
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See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**



**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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## **Note A – Summary of Significant Accounting Policies**

Sparta Area Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,064 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Sparta Area Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

### **1. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

### **2. District-Wide and Fund Financial Statements**

**District-Wide Financial Statements** - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods,

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

*Debt Service Funds*—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

*Capital Projects Funds*—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Sparta Area Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's Appropriations Act may occur without a corresponding amendment to the Appropriations Act. A school district has the ability to amend the Appropriations Act provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Sparta Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

#### **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

#### **6. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**7. Inventory**

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

**8. Capital Assets**

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

**9. Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**10. Early Retirement Incentive/Accumulated Sick Leave**

Early retirement incentive and accumulated sick leave at June 30, 2005 has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2005, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$607,096 and \$139,120, respectively.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**11. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**12. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

**13. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents and Investments**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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**Cash Equivalents**

Depositories actively used by the District during the year are detailed as follows:

1. Choice One Bank

Balances at June 30, 2005 related to cash equivalents and deposits are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 2,000,310
Fiduciary Funds	407,044
	<u>\$ 2,407,354</u>

Cash equivalents consist of bank public funds checking accounts.

*Custodial credit risk*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$2,407,354 and the bank balance was \$2,723,573. Of the bank balance, \$100,000 was covered by federal depository insurance and \$2,623,573 was uninsured.

**Investments**

As of June 30, 2005 the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Investment Pool Accounts:		
Michigan Liquid Asset Fund	\$ 1,035,263	N/A
Dreyfus Treasury Cash Management Fund	54,988	N/A
U.S. Agency Investments:		
FHLMC	14,819,329	1.6145
FNMA	12,579,982	1.2523
FHLB	4,931,620	1.2740
	<u>\$ 33,421,183</u>	
Portfolio Weighted Average Maturity		<u>1.4343</u>

*Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law. The District has a custodial credit risk exposure of \$32,330,931 in its U.S. Agency investments because the securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these securities.

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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*Credit Risk*

The District's investments in the Michigan Liquid Asset Fund and Dreyfus Treasury Cash Management Fund investment pools were unrated.

*Interest Rate Risk*

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

*Concentration of Credit Risk*

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security. More than 5 percent of the District's investments are in FHLMC (44%), FNMA (38%) and FHLB (15%).

*Foreign Currency Risk*

The District is not authorized to invest in investments which have this type of risk.

## **Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2004 ad valorem State Education Taxes generated within the Sparta Area School District, and paid to the State of Michigan, totaled \$2,235,586.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2004 and September, 2004. The 2004-05 "Foundation Allowance" for Sparta Area Schools was \$6,700 for 2,864 "Full Time Equivalent" students, generating \$18,417,752 in state aid payments to the District, of which \$3,332,218 was paid to the District in July and August, 2005 and included in "Due From Other Governmental Units" of the General and Food Service Special Revenue Funds of the District.

Property taxes for the District are levied July 1 and December 1 under a split-levy system by the Townships of Algoma, Alpine, Sparta, Tyrone, Chester and Wright and the Village of Sparta. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

<b>Tax Year</b>	<b>General</b>	<b>Debt Service</b>	<b>Building and Site</b>	<b>Total</b>
2004	\$ 5,144	\$ 1,848	\$ 251	\$ 7,243
2003	14,792	2,841	1,013	18,646
2002	32,514	4,996	1,795	39,305
	<u>\$ 52,450</u>	<u>\$ 9,685</u>	<u>\$ 3,059</u>	<u>\$ 65,194</u>



**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Sparta Area Schools electors previously approved a ten year operating millage extension in June 1996 for the 18 mill non-homestead property tax. However, due to reductions caused by the Headlee Amendment, only 17.7084 mills were levied in the District for 2004.

The District levied 6.37 mills in 2004 for debt service purposes and .8552 mills for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

### **Note D – Interfund Transfers**

Transfers between funds during the year ended June 30, 2005 were as follows:

	<u><b>Transfers In</b></u>	<u><b>Transfers Out</b></u>
<b>General Fund</b>		
Special Revenue Funds:		
Food Service Fund	\$ 30,000	\$ —
Athletics Fund	—	423,213
Total General Fund	<u>30,000</u>	<u>423,213</u>
<b>Special Revenue Funds</b>		
Food Service Fund:		
General Fund	—	30,000
Athletics Fund:		
General Fund	423,213	—
Total Special Revenue Funds	<u>423,213</u>	<u>30,000</u>

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Debt Service Funds</b>		
1995 Debt Service Fund:		
2003 Debt Service Fund	—	24,768
2000 Debt Service Fund:		
Capital Projects Fund:		
Building & Site Fund	143,980	—
2001 Debt Service Fund:		
Capital Projects Fund:		
Building & Site Fund	121,998	—
2003 Debt Service Fund:		
1995 Debt Service Fund	24,768	—
Total Debt Service Funds	<u>290,746</u>	<u>24,768</u>
<b>Capital Projects Funds</b>		
Building and Site Fund:		
2000 Debt Service Fund	—	143,980
2001 Debt Service Fund	—	121,998
Total Capital Projects Funds	<u>—</u>	<u>265,978</u>
Total All Funds	<u>\$ 743,959</u>	<u>\$ 743,959</u>

The Food Service Fund transfer to the General Fund was made to allocate indirect costs for the fiscal year. The General Fund transfer to the Athletic fund was made to pay the General Fund's share of support for the athletic program for the fiscal year. The 1995 Debt Service Fund transferred its remaining balance to the 2003 Debt Service Fund. The Building and Site Fund transfers to the Debt Service Funds were made to pay scheduled debt service principal and interest payments due in the fiscal year.

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balances July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2005</u>
Capital assets not depreciated:				
Land	\$ 657,914	\$ 1,344,546	\$ —	\$ 2,002,460
Construction in progress	—	1,126,651	—	1,126,651
Capital assets being depreciated:				
Land improvements	1,025,705	20,500	—	1,025,705
Buildings and additions	14,370,633	—	—	14,370,633
Furniture and equipment	990,654	20,698	—	1,011,352
Vehicles	1,803,341	69,124	—	1,872,465
Totals at historical cost	<u>18,848,247</u>	<u>\$2,561,019</u>	<u>\$ —</u>	<u>21,409,266</u>

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

	<b>Balances July 1, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balances June 30, 2005</b>
Less accumulated depreciation for:				
Land improvements	476,194	\$ 42,226	\$ —	518,420
Buildings and additions	6,716,860	339,390	—	7,056,250
Furniture and equipment	738,148	73,579	—	811,727
Vehicles	1,245,571	148,545	—	1,394,116
Total accumulated depreciation	9,176,773	\$ 603,740	\$ —	9,780,513
<b>Net Capital Assets</b>	<b>\$ 9,671,474</b>			<b>\$ 11,628,753</b>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 33,611
Supporting services	166,170
Food service	4,335
Athletics	29,037
Unallocated	370,587
	<u>\$ 603,740</u>

### Note F – Short-term Debt

Repayment of the \$1,500,000 August 21, 2003 state aid anticipation loan (interest at 1.03%) was made on August 21, 2004. Interest cost on the loan was \$2,189 for the fiscal year.

### Note G – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2005 are summarized as follows:

	<b>General Obligation Bonds</b>	<b>Durant Non-plaintiff Bonds</b>	<b>Early Retirement Incentive</b>	<b>Accumulated Sick Leave</b>	<b>Total</b>
<b>Amount Available For Retirement Of Long-Term Debt</b>					
Debt Service Funds	\$ 244,864	\$ —	\$ —	\$ —	\$ 244,864
<b>Amounts To Be Provided For Retirement Of Long-Term Debt</b>					
State of Michigan	—	502,303	—	—	502,303
General Fund	—	—	607,096	139,120	746,216
Debt Service Funds	38,370,136	—	—	—	38,370,136
<b>Total Amounts Available and To Be Provided</b>	<b>\$ 38,615,000</b>	<b>\$ 502,303</b>	<b>\$ 607,096</b>	<b>\$ 139,120</b>	<b>\$ 39,863,519</b>

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Changes in long-term debt for the year ended June 30, 2005 are summarized as follows:

	<b>Debt Outstanding July 1, 2004</b>	<b>Debt Added</b>	<b>Debt Retired</b>	<b>Debt Outstanding June 30, 2005</b>
General obligation bonds:				
May 1, 2000	\$ 735,000	\$ —	\$ 105,000	\$ 630,000
May 1, 2001	640,000	—	95,000	545,000
March 24, 2003	3,955,000	—	760,000	3,195,000
July 14, 2004	—	34,410,000	165,000	34,245,000
Durant non-plaintiff bonds:				
November 13, 1998	502,303	—	—	502,303
Early retirement incentive	669,617	172,958	235,479	607,096
Accumulated sick leave	124,844	27,576	13,300	139,120
	<u>\$ 6,626,764</u>	<u>\$ 34,610,534</u>	<u>\$ 1,373,779</u>	<u>\$ 39,863,519</u>

Long-term bonds outstanding at June 30, 2005 are comprised of the following:

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>General Obligation Bonds</b>				
\$1,100M Building and Site May 1, 2000:				
Annual maturities of 115M to 140M	May 1, 2010	5.20 – 5.50	\$ 630,000	\$ 115,000
\$900M Building and Site May 1, 2001:				
Annual maturities of 95M to 115M	May 1, 2010	4.00 – 4.50	545,000	95,000
\$4,815M Refunding March 24, 2003:				
Annual maturities of 775M to 825M	May 1, 2009	2.00 – 3.00	3,195,000	715,000
\$34,410M Building & Site July 14, 2004:				
Annual maturities of 165M to 2,075M	May 1, 2030	2.00 – 5.00	34,245,000	170,000
<b>Durant Non-plaintiff Bonds</b>				
\$786M School Improvement November 13, 1998:				
Annual maturities of 38M to 188M	May 15, 2013	4.761353	502,303	38,057
			<u>\$ 39,117,303</u>	<u>\$ 1,193,057</u>

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 1,193,057	\$ 1,776,523	\$ 2,969,580
2007	1,254,860	1,746,031	3,000,891
2008	1,381,768	1,712,676	3,094,444
2009	1,463,757	1,670,262	3,134,019
2010	1,522,836	1,731,910	3,254,746
2011	1,173,021	1,567,066	2,740,087
2012	1,225,305	1,522,591	2,747,896
2013	1,277,699	1,473,197	2,750,896
2014	1,275,000	1,421,687	2,696,687
2015	1,325,000	1,367,500	2,692,500

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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<b>Year Ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 1,375,000	\$ 1,301,250	\$ 2,676,250
2017	1,425,000	1,232,500	2,657,500
2018	1,475,000	1,161,250	2,636,250
2019	1,525,000	1,087,500	2,612,500
2020	1,575,000	1,011,250	2,586,250
2021	1,625,000	932,500	2,557,500
2022	1,675,000	851,250	2,526,250
2023	1,725,000	767,500	2,492,500
2024	1,775,000	681,250	2,456,250
2025	1,825,000	592,500	2,417,500
2026	1,900,000	501,250	2,401,250
2027	1,950,000	406,250	2,356,250
2028	2,025,000	308,750	2,333,750
2029	2,075,000	207,500	2,282,500
2030	2,075,000	103,750	2,178,750
	<u>\$ 39,117,303</u>	<u>\$ 27,135,693</u>	<u>\$ 66,252,996</u>

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**Note H – Retirement Plan**

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2005 was \$14,061,997. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 12.99% for the fiscal year ending September 30, 2004 and 14.87% for the fiscal year beginning October 1, 2004. The School's contributions to the plan for the fiscal years ended June 30, 2005, 2004 and 2003 were \$2,063,002, \$1,849,332 and \$1,884,089, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2003 (the latest reporting date available expressed as

**SPARTA AREA SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

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\$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$44,769. The MPSERS' net assets available for benefits on that date were \$38,726 leaving an unfunded pension benefit obligation of \$6,043. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2004 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$2,812 from September 30, 2002 to September 30, 2003. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

## **Note I – Risk Management and Benefits**

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$103,900 in premiums to the Trust for the year ended June 30, 2005.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of a \$1,833,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2005, there were no material pending claims against the District. The District paid \$91,478 in premiums to the Fund for the year ended June 30, 2005.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **SUPPLEMENTAL INFORMATION**

## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.



**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash equivalents	\$ 1,004,032	\$ 2,413,939
Investments	763	48,591
Receivables:		
Taxes	52,450	71,032
Accounts	1,975	1,202
Due from other governmental units	3,774,697	3,765,871
Inventory	<u>2,408</u>	<u>5,741</u>
<b>Total Assets</b>	<u><u>\$ 4,836,325</u></u>	<u><u>\$ 6,306,376</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 273,836	\$ 293,913
State aid anticipation loan payable	-	1,500,000
Due to other governmental units	438,317	342,536
Accrued interest payable	-	13,261
Salaries payable	1,187,315	1,156,688
Deferred revenue	<u>178,740</u>	<u>283,053</u>
<b>Total Liabilities</b>	<u>2,078,208</u>	<u>3,589,451</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>2,758,117</u>	<u>2,716,925</u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 4,836,325</u></u>	<u><u>\$ 6,306,376</u></u>

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
Local sources:		
Property taxes:		
Current property taxes	\$ 1,777,159	\$ 1,667,184
Delinquent property taxes	2,766	3,094
Other property taxes	4,750	7,454
Interest on delinquent taxes	3,474	3,535
	<u>1,788,149</u>	<u>1,681,267</u>
Interest earnings:		
Interest on deposits and investments	56,065	49,674
Other local revenue:		
Tuition	7,309	6,475
Community enrichment fees	20,107	22,180
Preschool/childcare fees	211,595	139,247
Drivers education	28,660	37,101
Transportation fees	14,141	12,081
Sale of school property	2,330	97,958
Sale of fuel	15,695	10,683
Rental of school facilities	5,324	2,125
Donations	7,390	34,355
Adult education reimbursement	39,301	43,125
Indirect cost recovery	-	5,791
Refunds of expenditures	33,035	66,605
Miscellaneous	17,262	9,730
	<u>402,149</u>	<u>487,456</u>
Total local sources	2,246,363	2,218,397
State sources:		
State aid	18,474,418	18,601,928
Driver education	-	17,778
School improvement	2,349	2,295
FICA/Retirement reimbursement	45,412	36,554
Other	155	1,873
Total state sources	<u>18,522,334</u>	<u>18,660,428</u>
Federal sources:		
Title I	161,730	213,022
Title I C - Migrant	78,905	91,026
Title IIA	89,271	99,541
Title II D	3,420	11,110
Title III	59,237	58,980
Title V	4,135	1,892
Adult basic education	105,000	105,000
I.D.E.A. program	631,008	583,014
Medicaid - school based	3,160	8,126
Adult English literacy/civics education	11,988	11,652
Drug free schools	5,332	6,213
QAR	12,908	20,000
Other grants	2,116	1,647
Total federal sources	<u>1,168,210</u>	<u>1,211,223</u>

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2005 and 2004**

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	<u>2005</u>	<u>2004</u>
Interdistrict sources:		
Special education - county	\$ 1,167,546	\$ 796,956
Special education - transportation	320,678	-
Special education - tuition	198,230	182,424
Special education - shared costs	48,358	50,686
Durant settlement reimbursements	12,841	7,420
Medicaid fee for service	41,732	39,117
Career preparation	17,424	16,518
Other grants	4,968	11,369
Total interdistrict sources	<u>1,811,777</u>	<u>1,104,490</u>
 <b>Total Revenues</b>	 <u><u>\$ 23,748,684</u></u>	 <u><u>\$ 23,194,538</u></u>

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 2,952,654	\$ 2,847,599
Employee benefits	1,284,138	1,157,454
Purchased services	23,125	29,030
Supplies	83,772	166,925
Miscellaneous	3,266	264
	<u>4,346,955</u>	<u>4,201,272</u>
Middle school:		
Salaries	2,327,897	2,283,656
Employee benefits	894,119	830,066
Purchased services	3,474	3,510
Supplies	26,002	63,703
New equipment and furniture	7,484	5,120
	<u>3,258,976</u>	<u>3,186,055</u>
High school:		
Salaries	2,432,974	2,330,463
Employee benefits	926,879	851,334
Purchased services	12,135	17,530
Supplies	69,128	69,651
Miscellaneous	2,052	2,582
	<u>3,443,168</u>	<u>3,271,560</u>
Summer school:		
Salaries	40,438	20,808
Employee benefits	8,292	4,270
Supplies	2,377	894
	<u>51,107</u>	<u>25,972</u>
Preschool:		
Salaries	147,605	93,174
Employee benefits	62,537	31,854
Purchased services	2,815	1,286
Supplies	3,701	8,037
Miscellaneous	654	425
	<u>217,312</u>	<u>134,776</u>
Total basic programs	<u>11,317,518</u>	<u>10,819,635</u>
Added needs:		
Special education:		
Salaries	1,976,134	1,929,254
Employee benefits	865,110	791,642
Purchased services	483	407
Supplies	15,666	14,057
	<u>2,857,393</u>	<u>2,735,360</u>
Compensatory education:		
Salaries	320,710	362,709
Employee benefits	150,889	139,003
Purchased services	740	1,647

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
Compensatory education: (Continued)		
Supplies	\$ 11,477	\$ 16,305
Miscellaneous	-	466
Indirect cost	-	5,791
	<u>483,816</u>	<u>525,921</u>
Total added needs	3,341,209	3,261,281
Adult education services:		
Basic:		
Salaries	136,122	117,447
Employee benefits	39,992	30,273
Purchased services	6,722	4,382
Supplies	5,067	2,024
	<u>187,903</u>	<u>154,126</u>
Secondary:		
Salaries	36,891	71,873
Employee benefits	20,190	36,551
Purchased services	20,398	26,717
Supplies	3,976	3,236
Miscellaneous	271	-
Indirect cost	24,181	23,301
	<u>105,907</u>	<u>161,678</u>
Total adult education services	293,810	315,804
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	427,990	469,925
Employee benefits	153,445	144,782
Purchased services	17,558	4,846
Supplies	33,673	42,488
	<u>632,666</u>	<u>662,041</u>
Health services:		
Salaries	40,250	105,909
Employee benefits	8,417	36,405
Purchased services	453	524
Supplies	1,724	1,439
	<u>50,844</u>	<u>144,277</u>
Psychological services:		
Salaries	2,651	136,586
Employee benefits	526	51,459
Purchased services	227	64
Supplies	2,501	2,439
	<u>5,905</u>	<u>190,548</u>
Speech pathology services:		
Salaries	3,688	167,282
Employee benefits	738	64,049
Purchased services	282	283
Supplies	899	995
	<u>5,607</u>	<u>232,609</u>

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
Social worker services:		
Social workers salaries	\$ 1,336	\$ 221,237
Employee benefits	210	78,721
Purchased services	162	130
Supplies	389	992
	<u>2,097</u>	<u>301,080</u>
Total pupil services	697,119	1,530,555
Instructional staff services:		
Library:		
Salaries	155,520	152,864
Employee benefits	103,943	87,038
Purchased services	1,137	2,084
Supplies	21,394	23,909
Dues and fees	5,040	5,031
	<u>287,034</u>	<u>270,926</u>
Professional staff development:		
Salaries	24,403	26,407
Employee benefits	18,226	15,132
Purchased services	17,126	14,417
Supplies	508	1,093
Miscellaneous	2,426	7,960
	<u>62,689</u>	<u>65,009</u>
Supervision/direction of instruction:		
Salaries	215,238	225,279
Employee benefits	71,693	74,448
Purchased services	6,911	6,435
Supplies	710	728
	<u>294,552</u>	<u>306,890</u>
Total instructional staff services	644,275	642,825
General administrative services:		
Board of education:		
Salaries	3,900	2,520
Employee benefits	103,260	-
Purchased services	66,526	51,598
Supplies	2,664	4,298
Miscellaneous	19,294	24,361
	<u>195,644</u>	<u>82,777</u>
Executive administration:		
Salaries	321,875	204,568
Employee benefits	112,275	73,228
Purchased services	4,235	4,120
Supplies	2,026	-
Miscellaneous	2,440	3,690
	<u>442,851</u>	<u>285,606</u>
Total general administrative services	638,495	368,383

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
School administrative services:		
Office of the principal:		
Salaries	\$ 957,448	\$ 930,111
Employee benefits	446,582	356,664
Purchased services	19,996	25,100
Office supplies	21,131	23,495
Miscellaneous	5,096	8,364
Total school administrative services	1,450,253	1,343,734
Business services:		
Fiscal services:		
Salaries	92,008	87,724
Employee benefits	44,204	39,771
Purchased services	19,350	21,240
Supplies	2,516	4,754
	158,078	153,489
Other business services:		
Employee benefits	-	88,808
Purchased services	3,351	2,351
Miscellaneous	102,619	25,874
	105,970	117,033
Total business services	264,048	270,522
Operation and maintenance services:		
Operation and maintenance:		
Salaries	678,328	664,167
Employee benefits	352,742	339,694
Purchased services	299,506	267,841
Supplies	441,936	451,268
New equipment and furniture	13,264	7,999
Miscellaneous	693	242
Total operation and maintenance services	1,786,469	1,731,211
Pupil transportation services:		
Pupil transportation:		
Salaries	567,800	576,681
Employee benefits	245,242	224,553
Purchased services	45,200	17,526
Supplies	172,746	131,715
New buses	69,124	16,380
Miscellaneous	3,368	5,677
Total pupil transportation services	1,103,480	972,532
Central services:		
Staff/personnel services:		
Salaries	-	92,766
Employee benefits	-	29,557
Purchased services	-	372
Supplies	-	2,408
Miscellaneous	-	189
	-	125,292

(Continued)

**SPARTA AREA SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
Technology services:		
Salaries	\$ 51,876	\$ 49,154
Employee benefits	7,687	6,757
Purchased services	11,020	12,644
Supplies	51,339	41,388
New equipment and furniture	52,963	119,165
	<u>174,885</u>	<u>229,108</u>
Total central services	174,885	354,400
Community services:		
Community recreation:		
Salaries	3,665	6,848
Employee benefits	783	1,407
Miscellaneous	13,987	10,016
	<u>18,435</u>	<u>18,271</u>
Community activities:		
Salaries	-	5,725
Employee benefits	-	3,041
Purchased services	-	22,505
Supplies	-	1,324
Miscellaneous	-	65
	<u>-</u>	<u>32,660</u>
Custody/care of children:		
Salaries	124,424	119,880
Employee benefits	27,476	24,704
Purchased services	-	341
Supplies	12,210	10,422
Miscellaneous	541	386
	<u>164,651</u>	<u>155,733</u>
Total community services	183,086	206,664
Interdistrict:		
Special education tuition	148,036	258,763
Special education transportation	292,423	223,532
Special education services	36,204	58,021
Special education itinerants	909,846	-
Other	20,662	7,059
	<u>1,407,171</u>	<u>547,375</u>
Total interdistrict	1,407,171	547,375
<b>Total Expenditures</b>	<u><u>\$ 23,301,818</u></u>	<u><u>\$ 22,364,921</u></u>



## **NONMAJOR FUNDS**

**SPARTA AREA SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2005**

	Special Revenue	Debt Service	
	Food Service	2003	2004
<b>Assets</b>			
Cash equivalents	\$ 129,973	\$ 85,635	\$ 159,229
Receivables:			
Taxes	-	8,490	1,195
Accounts	1,056	-	-
Due from other governmental units	4,800	-	-
Inventory	11,445	-	-
<b>Total Assets</b>	<u>\$ 147,274</u>	<u>\$ 94,125</u>	<u>\$ 160,424</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 344	\$ -	\$ -
Deferred revenue	4,364	8,490	1,195
<b>Total Liabilities</b>	<u>4,708</u>	<u>8,490</u>	<u>1,195</u>
<b>Fund Balances</b>			
Reserved for debt service	-	85,635	159,229
Reserved for capital outlay	-	-	-
Unreserved:			
Undesignated	142,566	-	-
<b>Total Fund Balances</b>	<u>142,566</u>	<u>85,635</u>	<u>159,229</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 147,274</u>	<u>\$ 94,125</u>	<u>\$ 160,424</u>

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Capital Projects	
Building and Site	Total
\$ 195,505	\$ 570,342
3,059	12,744
-	1,056
-	4,800
-	11,445
<u>\$ 198,564</u>	<u>\$ 600,387</u>

\$ -	\$ 344
<u>3,059</u>	<u>17,108</u>
<u>3,059</u>	<u>17,452</u>
-	244,864
195,505	195,505
-	142,566
<u>195,505</u>	<u>582,935</u>
<u>\$ 198,564</u>	<u>\$ 600,387</u>

**SPARTA AREA SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2005**

	Special Revenue	
	Food Service	Athletics
<b>Revenues</b>		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	2,369	-
Other	-	-
Sales and admissions	429,648	108,242
Total local sources	432,017	108,242
State sources	46,778	-
Federal sources	306,062	-
<b>Total Revenues</b>	<b>784,857</b>	<b>108,242</b>
<b>Expenditures</b>		
Current:		
Food service	762,866	-
Athletics	-	531,455
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
<b>Total Expenditures</b>	<b>762,866</b>	<b>531,455</b>
<b>Excess (Deficiency) of Revenues</b> <b>Over Expenditures</b>	<b>21,991</b>	<b>(423,213)</b>
<b>Other Financing Sources (Uses)</b>		
Transfers in	-	423,213
Transfers out	(30,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(30,000)</b>	<b>423,213</b>
<b>Net Change in Fund Balances</b>	<b>(8,009)</b>	<b>-</b>
<b>Fund Balances, July 1</b>	<b>150,575</b>	<b>-</b>
<b>Fund Balances, June 30</b>	<b>\$ 142,566</b>	<b>\$ -</b>

Debt Service					Capital Projects Building and Site	Total
1995	2000	2001	2003	2004		
\$ -	\$ -	\$ -	\$ 855,342	\$ 1,554,493	\$ 323,654	\$ 2,733,489
-	-	-	1,695	2,847	4,713	11,624
-	-	-	-	-	100	100
-	-	-	-	-	-	537,890
-	-	-	857,037	1,557,340	328,467	3,283,103
-	-	-	-	-	-	46,778
-	-	-	-	-	-	306,062
-	-	-	857,037	1,557,340	328,467	3,635,943
-	-	-	-	-	-	762,866
-	-	-	-	-	-	531,455
-	-	-	-	-	58,077	58,077
1,955	105,000	95,000	760,000	165,000	-	1,125,000
1,955	38,980	26,998	103,295	1,233,111	-	1,404,339
1,955	143,980	121,998	863,295	1,398,111	58,077	3,881,737
(1,955)	(143,980)	(121,998)	(6,258)	159,229	270,390	(245,794)
-	143,980	121,998	24,768	-	-	713,959
(24,768)	-	-	-	-	(265,978)	(320,746)
(24,768)	143,980	121,998	24,768	-	(265,978)	393,213
(26,723)	-	-	18,510	159,229	4,412	147,419
26,723	-	-	67,125	-	191,093	435,516
\$ -	\$ -	\$ -	\$ 85,635	\$ 159,229	\$ 195,505	\$ 582,935

**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2005**

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
<b>Revenues</b>				
Local sources:				
Interest earnings	\$ 2,500	\$ 2,369	\$ (131)	\$ 2,115
Sales and admissions	428,800	429,648	848	412,363
Total local sources	431,300	432,017	717	414,478
State sources	42,432	46,778	4,346	39,973
Federal sources	291,000	306,062	15,062	295,194
<b>Total Revenues</b>	<b>764,732</b>	<b>784,857</b>	<b>20,125</b>	<b>749,645</b>
<b>Expenditures</b>				
Current:				
Food service	765,409	762,866	2,543	745,553
<b>Excess of Revenues Over Expenditures</b>	<b>677</b>	<b>21,991</b>	<b>22,668</b>	<b>4,092</b>
<b>Other Financing Sources (Uses)</b>				
Transfers out	-	(30,000)	(30,000)	(29,965)
<b>Net Change in Fund Balances</b>	<b>(677)</b>	<b>(8,009)</b>	<b>(7,332)</b>	<b>(25,873)</b>
<b>Fund Balances, July 1</b>	<b>150,575</b>	<b>150,575</b>	<b>-</b>	<b>176,448</b>
<b>Fund Balances, June 30</b>	<b>\$ 149,898</b>	<b>\$ 142,566</b>	<b>\$ (7,332)</b>	<b>\$ 150,575</b>

**SPARTA AREA SCHOOLS**  
**Athletics Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2005**

	2005			2004
	Budget	Actual	Variance - Positive (Negative)	Actual
<b>Revenues</b>				
Local sources:				
Sales and admissions	\$ 101,340	\$ 108,242	\$ 6,902	\$ 127,419
<b>Expenditures</b>				
Current:				
Athletics	597,340	531,455	65,885	544,775
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(496,000)	(423,213)	72,787	(417,356)
<b>Other Financing Sources</b>				
Transfers in	496,000	423,213	(72,787)	417,356
<b>Net Change in Fund Balances</b>	-	-	-	-
<b>Fund Balances, July 1</b>	-	-	-	-
<b>Fund Balances, June 30</b>	\$ -	\$ -	\$ -	\$ -

## **SPECIAL REVENUE FUNDS**

*Food Service*—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

*Athletics*—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.



**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash equivalents	\$ 129,973	\$ 131,403
Accounts receivable	1,056	1,056
Due from other governmental units	4,800	5,015
Inventory	<u>11,445</u>	<u>18,143</u>
<b>Total Assets</b>	<u><u>\$ 147,274</u></u>	<u><u>\$ 155,617</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 344	\$ 331
Deferred revenue	<u>4,364</u>	<u>4,711</u>
<b>Total Liabilities</b>	<u>4,708</u>	<u>5,042</u>
 <b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>142,566</u>	<u>150,575</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 147,274</u></u>	<u><u>\$ 155,617</u></u>

**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 222,770	\$ 223,699
Adult lunches	10,498	10,151
Milk	8,531	7,869
Ala carte	177,239	159,348
Banquets	3,973	3,285
Other	6,637	8,011
	<u>429,648</u>	<u>412,363</u>
Interest earnings:		
Interest on deposits	2,369	2,115
Total local sources	<u>432,017</u>	<u>414,478</u>
State sources	46,778	39,973
Federal sources	<u>306,062</u>	<u>295,194</u>
<b>Total Revenues</b>	<u>784,857</u>	<u>749,645</u>
<b>Expenditures</b>		
Current:		
Food service:		
Salaries:		
Supervisor	54,032	53,181
Food service	8,476	10,269
Drivers	42,054	43,395
Clerical	132,627	139,248
Severance pay	2,304	11,413
Employee benefits:		
Employee insurance	79,504	65,636
Retirement	34,843	31,963
Social Security	18,321	19,699
Workers' compensation insurance	3,104	2,822
Unemployment compensation	72	768
Purchased services	3,765	2,741
Workshops and conferences	1,134	1,609
Mailing and postage	457	215
Waste and trash disposal	1,883	4,718
Equipment repair and maintenance	5,650	4,715
Food	295,297	284,253
Milk	50,735	38,857
Nonedible supplies	22,699	24,593
Gasoline, oil and grease	931	568
Other supplies and materials	2,864	3,542
Miscellaneous	2,114	1,348
	<u>762,866</u>	<u>745,553</u>
<b>Total Expenditures</b>	<u>762,866</u>	<u>745,553</u>
<b>Excess of Revenues Over Expenditures</b>	<u>21,991</u>	<u>4,092</u>

(Continued)

**SPARTA AREA SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2005 and 2004**

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	<u>2005</u>	<u>2004</u>
<b>Other Financing Sources (Uses)</b>		
Transfers out	<u>\$ (30,000)</u>	<u>\$ (29,965)</u>
<b>Net Change in Fund Balances</b>	(8,009)	(25,873)
<b>Fund Balances, July 1</b>	<u>150,575</u>	<u>176,448</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 142,566</u></u>	<u><u>\$ 150,575</u></u>

**SPARTA AREA SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balances</b>		
Unreserved:		
Undesignated	<u>-</u>	<u>-</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>\$ -</u>

**SPARTA AREA SCHOOLS**  
**Athletics Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2005 and 2004**

	2005	2004
<b>Revenues</b>		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 74,999	\$ 78,156
Fees and sales	2,555	3,381
Donations	30,688	45,882
<b>Total Revenues</b>	<u>108,242</u>	<u>127,419</u>
<b>Expenditures</b>		
Current:		
Athletics:		
Salaries:		
Director	71,957	70,886
Coaches	209,810	206,219
Trainer	17,595	18,000
Clerical	23,982	24,199
Maintenance	-	300
Employee benefits:		
Employee insurance	24,003	20,009
Retirement	45,629	39,800
Social Security	24,650	24,452
Workers' compensation insurance	1,004	647
Purchased services	1,200	1,248
Officials	33,878	31,286
Workshops and conferences	2,073	1,676
Telephone	1,745	1,534
Equipment repair and maintenance	144	135
Other supplies and materials	56,612	36,665
New furniture and equipment	-	51,382
Dues and fees	13,309	11,745
Miscellaneous	3,864	4,592
<b>Total Expenditures</b>	<u>531,455</u>	<u>544,775</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(423,213)</u>	<u>(417,356)</u>
<b>Other Financing Sources</b>		
Transfers in	<u>423,213</u>	<u>417,356</u>
<b>Net Change in Fund Balances</b>	-	-
<b>Fund Balances, July 1</b>	<u>-</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

## **DEBT SERVICE FUNDS**

*Debt Service Funds*—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**SPARTA AREA SCHOOLS**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2005**

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	<u>1995</u>	<u>2000</u>	<u>2001</u>	<u>2003</u>
<b>Assets</b>				
Cash equivalents	\$ -	\$ -	\$ -	\$ 85,635
Receivables:				
Taxes	-	-	-	8,490
Accounts	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 94,125</u></u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Deferred revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,490</u>
<b>Fund Balances</b>				
Reserved for debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,635</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 94,125</u></u>

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2004	Totals	
	2005	2004
\$ 159,229	\$ 244,864	\$ 82,688
1,195	9,685	12,662
-	-	11,160
<u>\$ 160,424</u>	<u>\$ 254,549</u>	<u>\$ 106,510</u>
<u>\$ 1,195</u>	<u>\$ 9,685</u>	<u>\$ 12,662</u>
<u>159,229</u>	<u>244,864</u>	<u>93,848</u>
<u>\$ 160,424</u>	<u>\$ 254,549</u>	<u>\$ 106,510</u>



**SPARTA AREA SCHOOLS**  
**Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2005**

	1995	2000	2001	2003
<b>Revenues</b>				
Local sources:				
Property taxes:				
Current property taxes	\$ -	\$ -	\$ -	\$ 841,405
Industrial facilities taxes	-	-	-	11,961
Delinquent property taxes	-	-	-	530
Interest on delinquent taxes	-	-	-	1,446
Other taxes	-	-	-	-
	-	-	-	855,342
Interest earnings:				
Interest on deposits and investments	-	-	-	1,695
<b>Total Revenues</b>	-	-	-	857,037
<b>Expenditures</b>				
Debt service:				
Principal repayment	-	105,000	95,000	760,000
Interest and fiscal charges:				
Interest expense	-	38,980	26,998	91,375
Paying agent fees	-	-	-	-
Tax refunds	1,955	-	-	11,920
<b>Total Expenditures</b>	1,955	143,980	121,998	863,295
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(1,955)	(143,980)	(121,998)	(6,258)
<b>Other Financing Sources (Uses)</b>				
Transfers in		143,980	121,998	24,768
Transfers out	(24,768)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	(24,768)	143,980	121,998	24,768
<b>Net Change in Fund Balances</b>	(26,723)	-	-	18,510
<b>Fund Balances, July 1</b>	26,723	-	-	67,125
<b>Fund Balances, June 30</b>	\$ -	\$ -	\$ -	\$ 85,635

2004	Totals	
	2005	2004
\$ 1,530,160	\$ 2,371,565	\$ 1,180,460
21,752	33,713	18,831
-	530	621
2,581	4,027	2,028
-	-	912
1,554,493	2,409,835	1,202,852
2,847	4,542	999
1,557,340	2,414,377	1,203,851
165,000	1,125,000	1,300,000
1,231,234	1,388,587	206,574
212	212	1,525
1,665	15,540	-
1,398,111	2,529,339	1,508,099
159,229	(114,962)	(304,248)
-	290,746	335,893
-	(24,768)	(65,778)
-	265,978	270,115
159,229	151,016	34,133
-	93,848	127,981
\$ 159,229	\$ 244,864	\$ 93,848

## **CAPITAL PROJECTS FUNDS**

*Building and Site*—to account for property tax revenues and interest earnings used to finance building restoration projects.

*2004 Construction*—to account for bond proceeds used to finance building construction and improvement projects.

**SPARTA AREA SCHOOLS**  
**Building and Site Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash equivalents	\$ 195,505	\$ 191,093
Taxes receivable	<u>3,059</u>	<u>4,727</u>
<b>Total Assets</b>	<u><u>\$ 198,564</u></u>	<u><u>\$ 195,820</u></u>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Deferred revenue	<u>\$ 3,059</u>	<u>\$ 4,727</u>
<b>Fund Balances</b>		
Reserved for capital outlay	<u>195,505</u>	<u>191,093</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 198,564</u></u>	<u><u>\$ 195,820</u></u>

**SPARTA AREA SCHOOLS**  
**Building and Site Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Local sources:		
Property taxes:		
Current property taxes	\$ 318,390	\$ 421,907
Industrial facilities taxes	4,526	6,730
Delinquent property taxes	191	215
Interest on delinquent taxes	547	725
Other property taxes	-	318
	<u>323,654</u>	<u>429,895</u>
Interest earnings:		
Interest on deposits	<u>4,713</u>	<u>3,206</u>
Other local revenue:		
Miscellaneous	<u>100</u>	<u>-</u>
<b>Total Revenues</b>	<u>328,467</u>	<u>433,101</u>
<b>Expenditures</b>		
Capital outlay:		
Building improvements	53,591	-
Tax refunds	<u>4,486</u>	<u>-</u>
<b>Total Expenditures</b>	<u>58,077</u>	<u>-</u>
<b>Excess of Revenues Over Expenditures</b>	<u>270,390</u>	<u>433,101</u>
<b>Other Financing Sources (Uses)</b>		
Transfers out	<u>(265,978)</u>	<u>(270,115)</u>
<b>Net Change in Fund Balances</b>	4,412	162,986
<b>Fund Balances, July 1</b>	<u>191,093</u>	<u>28,107</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 195,505</u></u>	<u><u>\$ 191,093</u></u>

**SPARTA AREA SCHOOLS**  
**2004 Construction Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Cash equivalents	\$ 425,936	\$ -
Investments	33,420,420	-
Accrued interest receivable	<u>324,343</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 34,170,699</u></u>	<u><u>\$ -</u></u>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund Balances</b>		
Reserved for capital outlay	<u>34,170,699</u>	<u>-</u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 34,170,699</u></u>	<u><u>\$ -</u></u>

**SPARTA AREA SCHOOLS**  
**2004 Construction Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 486,285	\$ -
Other local sources:		
Donations	<u>1,335,000</u>	<u>-</u>
<b>Total Revenues</b>	1,821,285	-
<b>Expenditures</b>		
Capital outlay:		
Purchased services	2,997	-
Construction manager	22,500	-
Legal services	4,795	-
Architect services	1,096,359	-
Land	1,344,546	-
Bond issuance costs	195,652	-
Underwriter's discount	<u>163,448</u>	<u>-</u>
<b>Total Expenditures</b>	<u>2,830,297</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(1,009,012)</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>		
Bonds issued	34,410,000	-
Bond premium	<u>769,711</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<u>35,179,711</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	34,170,699	-
<b>Fund Balances, July 1</b>	<u>-</u>	<u>-</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 34,170,699</u></u>	<u><u>\$ -</u></u>

## **AGENCY FUND**

*Student Activities* —to account for the collection and disbursements of monies used by the school activity clubs and groups.



**SPARTA AREA SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2005**

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	<u>Balances</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2005</u>
<b>Assets</b>				
Cash equivalents	<u>\$ 350,000</u>	<u>\$ 485,879</u>	<u>\$ 428,835</u>	<u>\$ 407,044</u>
<b>Liabilities</b>				
Due to student groups	<u>\$ 350,000</u>	<u>\$ 485,879</u>	<u>\$ 428,835</u>	<u>\$ 407,044</u>

## **OTHER INFORMATION**

**SPARTA AREA SCHOOLS**  
**Summary of 2004 Taxes Levied and Collected**  
**For the year ended June 30, 2005**

	Kent County				Ottawa County		Total
	Algoma	Alpine	Sparta	Tyrone	Chester	Wright	
<b>Taxable Valuations</b>							
Operating	\$10,173,391	\$10,645,289	\$ 75,734,756	\$ 26,622	\$ 3,918,000	\$ 142,500	\$100,640,558
Debt Service/Building and Site	97,172,129	42,495,986	210,660,551	459,585	20,183,813	1,625,640	372,597,704
<b>Rates (Mills)</b>							
General Fund							17.7084
2003 Debt Service Fund							2.2600
2004 Debt Service Fund							4.1100
Building and Site Fund							0.8552
							<u>24.9336</u>
<b>Taxes Levied 2004 Rolls</b>							
General Fund	\$ 180,152	\$ 188,509	\$ 1,340,057	\$ 474	\$ 69,381	\$ 3,730	\$ 1,782,303
2003 Debt Service Fund	219,604	96,039	476,082	1,039	45,613	3,673	842,050
2004 Debt Service Fund	399,369	174,655	865,796	1,889	82,952	6,681	1,531,342
Building and Site Fund	83,100	36,342	180,153	393	17,260	1,390	318,638
	<u>882,225</u>	<u>495,545</u>	<u>2,862,088</u>	<u>3,795</u>	<u>215,206</u>	<u>15,474</u>	<u>4,474,333</u>
<b>Taxes Uncollected 2004 Rolls</b>							
General Fund	-	244	4,627	-	273	-	5,144
2003 Debt Service Fund	-	31	590	-	32	-	653
2004 Debt Service Fund	-	57	1,074	-	64	-	1,195
Building and Site Fund	-	12	224	-	15	-	251
	<u>-</u>	<u>344</u>	<u>6,515</u>	<u>-</u>	<u>384</u>	<u>-</u>	<u>7,243</u>
<b>Taxes Collected 2004 Rolls</b>							
General Fund	180,152	188,265	1,335,430	474	69,108	3,730	1,777,159
2003 Debt Service Fund	219,604	96,008	475,492	1,039	45,581	3,673	841,397
2004 Debt Service Fund	399,369	174,598	864,722	1,889	82,888	6,681	1,530,147
Building and Site Fund	83,100	36,330	179,929	393	17,245	1,390	318,387
	<u>882,225</u>	<u>495,201</u>	<u>2,855,573</u>	<u>3,795</u>	<u>214,822</u>	<u>15,474</u>	<u>4,467,090</u>
<b>Delinquent Taxes Collected</b>							
General Fund	-	1,767	999	-	-	-	2,766
2003 Debt Service Fund	-	338	192	-	-	-	530
Building and Site Fund	-	122	69	-	-	-	191
	<u>-</u>	<u>2,227</u>	<u>1,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,487</u>
<b>Total Taxes Collected</b>							
General Fund	180,152	190,032	1,336,429	474	69,108	3,730	1,779,925
2003 Debt Service Fund	219,604	96,346	475,684	1,039	45,581	3,673	841,927
2004 Debt Service Fund	399,369	174,598	864,722	1,889	82,888	6,681	1,530,147
Building and Site Fund	83,100	36,452	179,998	393	17,245	1,390	318,578
	<u>882,225</u>	<u>497,428</u>	<u>2,856,833</u>	<u>3,795</u>	<u>214,822</u>	<u>15,474</u>	<u>4,470,577</u>
<b>Taxes Uncollected – June 30, 2005</b>							
General Fund:							
2004	-	244	4,627	-	273	-	5,144
2003	9,715	4,698	379	-	-	-	14,792
2002	8,879	4,065	19,431	-	139	-	32,514
	<u>18,594</u>	<u>9,007</u>	<u>24,437</u>	<u>-</u>	<u>412</u>	<u>-</u>	<u>52,450</u>
2003 Debt Service Fund:							
2004	-	31	590	-	32	-	653
2003	1,865	904	72	-	-	-	2,841
2002	1,711	780	2,479	-	26	-	4,996
	<u>3,576</u>	<u>1,715</u>	<u>3,141</u>	<u>-</u>	<u>58</u>	<u>-</u>	<u>8,490</u>
2004 Debt Service Fund:							
2004	-	57	1,074	-	64	-	1,195
Building and Site Fund:							
2004	-	12	224	-	15	-	251
2003	667	321	25	-	-	-	1,013
2002	617	281	893	-	4	-	1,795
	<u>1,284</u>	<u>614</u>	<u>1,142</u>	<u>-</u>	<u>19</u>	<u>-</u>	<u>3,059</u>
<b>Total Taxes Uncollected</b>	<u>\$ 23,454</u>	<u>\$ 11,393</u>	<u>\$ 29,794</u>	<u>\$ -</u>	<u>\$ 553</u>	<u>\$ -</u>	<u>\$ 65,194</u>

# Hungerford, Aldrin, Nichols & Carter, P.C.

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C P A s   A N D   C O N S U L T A N T S

August 25, 2005

The Board of Education  
Sparta Area Schools

The following comments pertain to our audit of the financial records of Sparta Area Schools as of and for the year ended June 30, 2005. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Sparta Area Schools:

### **Auditors Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Sparta Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Sparta Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Sparta Area School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Sparta Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Sparta Area School's compliance with those requirements.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sparta Area Schools are described in Note A to the financial statements.

### **Difficulties Encountered In Performing The Audit**

We encountered no significant difficulties in performing the audit of the financial statements of Sparta Area Schools for the year ended June 30, 2005. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

## **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

### **General Fund**

1. \$52,963 to classify computers purchased to a capital outlay account to comply with the new Michigan Department of Education FID account numbering structure.
2. \$39,141 and \$47,248 to adjust receivables and payables for KISD itinerant staff to actual at June 30, 2005.

### **2004 Construction Fund**

1. \$1,335,000 to record the donation of land for the new high school site.
2. \$207,018 to adjust investments to market value at June 30, 2005 as required by generally accepted accounting principles.

## **Proposed Audit Adjustments**

There were no material adjustments proposed during the audit not recorded by Sparta Area Schools.

## **Suggestions And Recommendations**

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Sparta Area Schools to the Superintendent, Accounting Supervisor and Payroll Accountant as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

## **Other Comments**

The General Fund balance of the District increased by \$41,192 to \$2,758,117 at June 30, 2005. This balance represents approximately 11.3 percent of the District's 2005-06 expenditure budget. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Sparta Area Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

**Other Comments (Continued)**

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Sparta Area Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Sparta Area Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Sparta Area Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

*Hungerford, Aldrin, Nichols & Benton, P.C.*

Certified Public Accountants